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Jamaica Money Market Brokers Ltd. | Market Research

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**JMMB’s Portfolio Management Services  
CLIENT PORTFOLIO RECOMMENDATIONS**

**GLOBAL REVIEW AND OUTLOOK**

- The US has been trying to renegotiate various trade treaties that are deemed to be unfavourable to the sovereign, which includes the North America Free Trade Area (NAFTA). The sovereign pulled out of the Transatlantic Trade and Investment Partnership with countries in Southeast Asia, including Japan.
- There are growing concerns regarding a potential all out trade war between the US and China that could drag world growth downwards. The Trump administration has accused China of unfair trade practices and applied a 25% tariff on \$34 billion in Chinese imports. China accused the US of bullying and imposed countervailing tariffs of its own. The US is considering imposing a further 25% tariff on US\$200 billion in Chinese imports, including fruits, vegetables and refrigerators. China has signalled its intention to levy tariffs on US meats, nuts and auto parts imports.
- On the 26<sup>th</sup> of September the US Federal Reserve increased interest rates a further 25 basis points. The market continues to anticipate at least one more increase for 2018. Today’s move is the 8<sup>th</sup> increase since the 2008 global recession.

**LOCAL REVIEW AND OUTLOOK**

- The volatility observed throughout much of the previous three months has subsided. BOJ interventions in the market have been minimal and in keeping with the B-FXITT calendar. Based on our view regarding how the economy is evolving, we are expecting the currency to continue to depreciate, albeit at a slower pace. It is likely that at some point the currency could appreciate, depending on USD inflows relative to demand. In the main however we envisage demand to outstrip supply. Thus, the probability is weighted towards depreciation through to the rest of the fiscal year however the momentum is likely to be weakened.
- The domestic economy over the last fiscal year has been characterised by relative stability in some of the main macroeconomic variables, including inflation, exchange rate and interest rate. Both the fiscal and monetary authorities continue to synchronize and refine their policies to maintain stability and improve













the growth outlook over the medium-term. Accordingly, we are expecting the fiscal authority to continue to implement policies to curtail the fiscal deficit and reduce the debt dynamics. Over the course of FY 2018/19, we are expecting the Bank of Jamaica (BOJ) to play its role in keeping volatility in the foreign exchange market under control and moving its policy rate in keeping with evolution in the domestic and external economies.

- The inflation rate for the month of July was 1% which marks the first time since June 2016 that the one-month inflation rate surpassed 0.9%. The movement in prices in the consumption basket largely reflects a 3.4% upwards adjustment in the index for the division ‘Housing, Water, Electricity, Gas and Other Fuels’. Within the division, prices in the groups ‘Electricity, Gas and other Fuels’ and ‘Water Supply and Miscellaneous Services related to the Dwelling’ recorded increases of 5.8% and 1.6%, respectively. The price movements were occasioned in part by depreciation of the Jamaica dollar and increases in international commodity prices, particularly crude oil and distillates. Price increase by 0.9% in the division ‘Food and Non-Alcoholic Beverages’.

**REGIONAL REVIEW AND OUTLOOK**

- The International Monetary Fund (IMF) announced on September 7<sup>th</sup> that it had reached a staff level agreement with the government of Barbados. The IMF team, led by Bert Van Selm, noted that a staff level agreement was reached on a 48-month Extended Fund Facility (EFF) to provide financial support of approximately US\$290 million. If approved by the IMF, an amount of approximately US\$49 million would be made available immediately.
- The economic condition in Trinidad and Tobago remains fluid and the economy is expected to grow at around 2% of the medium-term. Downside risk has subsided and it is envisaged that inflation will rise, albeit moderately as a result of low economic activities in both the public and private sectors. Consequent on increase in Fed rates and further expected rate adjustments in 2018, we are expecting the CBTT to increase the repo rate in 2019.

**Market Pulse**

INDEX/ITEM	LEVEL/PRICE	TREND
JSE Main	358,320.11	
JSE JNR	3,395.02	
ALL TTSE	1,691.18	
S&P 500	2,913.98	
BOJ 90 DAY T-BILL	2.98%	
T&T REPO RATE	4.75%	
T&T DEBT/GDP	62%	
GOJ DEBT/GDP	104%	
US\$:T&T\$	\$6.74	
US\$:J\$	\$134.56	
OIL (PER BARREL)	US\$73.47	
GOLD (PER OUNCE)	US\$1,186.60	

With one quarter left in 2018 the market is on track to producing another good year as the main JSE index is up by 22.34% year to date the junior market up by 25.42%. Barita Investments Limited (BIL), Kingston Wharves (KW), and Salada Foods Jamaica Limited (SALF) are three (3) of the main year to date movers growing by 138.8%, 121.5% and 68.9% respectively. While on the junior market Derrimon Trading Limited (DTL), Indies Pharma (Indies) and Express Catering Limited (ECL) were among the better performers increasing by 271.7%, 124% and 95% respectively. This is in line with our expectations as excess market liquidity, coupled with stability in the local exchange rate, strong fiscal performance by the government of Jamaica, the slow reduction of debt, and reduced unemployment has resulted in strong equity market performance year to date.

The fiscal numbers are projected to remain within manageable levels as successive administrations continue to slowly grind down the local debt. The strategy of issuing less debt as new debt reaches maturity makes excess liquidity available to the market. That liquidity will search for a home; with exchange rate stability and in some cases dollar appreciation being the near term and possibly medium term norm, Jamaican dollar instruments are attractive. For the past 3 years the equity market has looked impressive, providing returns often excess of 25%. A favourable economic climate is expected to drive further new listings on the stock exchange in 2018 and beyond. Following a strong 2017 that saw eight (8) companies listing ordinary shares and several preference we have seen six (6) new listing of ordinary shares with one quarter remaining in the year.

Despite the favourable outlook for the market for 2018 investors should be cautious as not all stocks will represent value. Seek qualified advice to guide your asset selection when building your portfolio. If there are assets in your portfolio that have appreciated significantly, now may prove to be an opportune time to take some gains and rebalance into other suitable assets that meet their portfolio needs.

In building out and managing an equity portfolio it is important to look at companies that have a diversified business model and/or provide consistent cash flows and also look for the presence of significant cross ownerships. As the market consolidates we expect established companies to continue to do well and IPOs to bolster the market. Therefore, these stocks could be considered as candidates for addition to investors' portfolios. Another option for equity investment of course is the Income and Growth Unit Trust as it is mainly equity based and is actively managed and rebalanced.

### **Stocks to Watch:**

**Jetcon** - Jetcon saw its revenues exceeded the billion dollar mark in 2017 as turnover amounted to \$1.18B, a 37.3% or \$319.54M increase on the \$857.04M reported in the 2016 financial year. Profit before taxation rose 49.1% to \$153.85M while net profit for the year was \$153.79M, up 145% year-over-year. The estimated fair value for Jetcon is \$5.62 while it currently trades at \$4.00.

**Wisynco Group Limited** – WISYNCO came to market in December 2017, seeking over J\$6B in an IPO that saw applications totaling over J\$20B, demonstrating the strong brand equity of the company. Revenues in the first quarter rose 16.7% to \$6.13B while profits rose 11.0% to \$655.8M. The company aims to widen its regional footprint with the capital raised as the majority of its strong revenues are locally-generated. We believe the fair value of this company is \$12.79 while its last traded price was \$9.10.

**LASCO Group of Companies** – **LASF acquired Scotia Jamaica Microfinance Company Limited (CrediScotia) in the fourth quarter of 2017, a move in line with its key strategy to expand its small loans business.** Over the year the branch network, team, and services were expanded as it aims to carve out a significant market share in the micro loans segment. Net profits for the nine months amounted to \$221.52M, exceeding the full year results for the previous financial year. We believe the fair value of this company is \$6.71 while its last traded price was \$5.50.

**LASD reported net profits of \$535.22M for its nine months period ended December 2017, up 28% year-over-year, on revenues of \$12.2B.** The company continued its efforts to improve efficiency in its operations as several measures were implemented including improved capacity utilization due to warehouse expansion and improved logistics, resulting in stronger profitability margins. We believe the fair value of this company is \$4.70 while its last traded price was \$3.95.

### **Market News**

- Derrimon Trading Company Limited (DTL) completed the acquisition Woodcats International Limited ("Woodcats") for a total of J\$355 million. They advised also that on September 6, 2018, Messrs. Derrick Cotterell, Ian Kelly, Earl Richards, Patrick Mignott and Mrs. Nicole Burger were appointed to the Board of Woodcats. The resignations of the prior board were duly accepted
- Grace Kennedy Limited (GK) now has a 40% holding in an amalgamated company SigniaGlobe Financial Group Inc., which is an amalgamation of Signia Financial Group Inc., and Globe Finance Inc. The acquisition of Globe Finance Inc. and its absorption with Signia cost approximately BBD11.8 million.
- Jamaica Broilers Group has acquired a Feed Mill company in the United States, through its subsidiary company, Wincorp Properties, Inc.

## UNIT TRUST INVESTMENT OPPORTUNITIES FOR PORTFOLIOS

We continue to encourage our clients to look at, and execute upon the opportunities that are available to them by way of our Unit Trust offerings. We recently added four new options to the existing suite of three. As such, we now have as part of our product offering eight (8) Unit Trust investment vehicles that will provide our clients with immediate diversification and expert management by JMMB Fund Managers of their investment dollar. The funds have varying degrees of suitability for different risk profiles, time horizon and investment objectives that clients may have. Please see details of pricing and returns on each fund below

FUND	PRIMARY COMPOSITION	SELLING PRICE	YTD RETURN	12 MONTH GROWTH
Giltedge	Fixed Income	\$21.03	4.01%	5.52%
Income and Growth	Equity	\$18.62	12.93%	21.25%
Optimum Capital	Real Estate	\$32.34	12.02%	14.98%
JMD Bond Fund	Fixed income	\$12.2038	5.10%	7.02%
JMD Real Value Fund	Mutual Funds	\$12.2798	8.48%	8.56%
JMD Income Fund	Fixed Income	\$10.4732	3.68%	3.90%
USD Income Fund	Fixed Income	\$1.0377	1.09%	1.49%
USD Giltedge Money Market Fund	Fixed Income	\$1.0087	-0.57%	0.31%

### GILTEDGE FUND

The Giltedge Fund pursues a conservative investment strategy and is comprised of a diversified range of high grade income bearing securities which is expertly managed to provide excellent risk adjusted returns for investors.

### INCOME AND GROWTH FUND

The Income and Growth Fund represents a very seamless and efficient way for clients with interest in the stock market. Given its very diversified nature across individual equities, the Income and Growth Fund is the perfect vehicle for clients to get efficient equities exposure and diversification while getting professional and active management

### OPTIMUM CAPITAL FUND (REAL ESTATE)

The Optimum Capital Fund is a truly diversified fund which comprises of all major asset classes including cash, bonds, equities and real estate. The Fund is designed to offer investors protection against long-term inflation impact on their portfolios, while giving clients the added dimension of achieving true portfolio diversification with minimal effort on their part.

### JMD BOND FUND

The JMMB JMD Bond Fund is positioned as a medium to long-term investment solution to clients desirous of having stable and consistent returns. The portfolio consists of Government of Jamaica sovereign instruments and blue chip corporate debt instruments and is managed to provide clients with consistent price appreciation over time. This fund is ideal for the moderate investor whose focus is capital appreciation.

### JMD REAL VALUE FUND

The JMMB Real Value Fund is invested primarily in other USD Collective Investment Schemes and is ideal for clients wanting exposure to USD securities/assets but have JMD to invest. The investment manager will therefore have the opportunity to choose from a range of CIS, balancing risk and return objectives. As a balanced asset investment solution, the asset structure gives the fund the added dimension of clients achieving portfolio diversification with minimal effort on their part. The fund is positioned as a medium to long-term investment solution for the moderate investor seeking investment returns in line with inflation.

### JMD INCOME FUND

The JMMB JMD Income Fund consists of sovereign and corporate debt securities and is managed to provide relative stability in the NAVPU. It is ideal for clients who desire consistent medium to long term growth and the fund price should reflect relative stability over time. It is suitable for the moderate investor with an investment horizon of greater than three months

### USD INCOME FUND

The JMMB USD Income Fund consists of USD sovereign and corporate debt securities and is managed to provide relative stability in the NAVPU. The fund is structured to provide consistent medium to long term growth (gross return) and should reflect relative stability over time and therefore would be ideal for clients concerned about price volatility. The fund offers a diversified range of USD securities and other high grade assets. The fund is ideal for the moderate investor with an investment horizon of greater than three months. Now is an opportune time for clients across all risk profiles, portfolio size and objectives to review their overall holdings and seek to utilize the Unit Trust vehicles outlined above to position their portfolios for exceptional performance moving forward.

### USD GILTEDGE MONEY MARKET FUND

The JMMB USD Giltedge Money Market Fund is positioned as a short to medium term investment solution; ideal for the conservative investor whose focus is liquidity and capital preservation. This Portfolio largely consist of diversified range of short to medium term high grade corporate bonds, preference shares and sovereign bonds from Caricom, Canada, Europe and the USA and will be positioned as a conservative investment solution. This fund is ideal for all portfolios given its focus on liquidity and capital preservation

## FIXED INCOME INVESTMENT STRATEGY

September saw yet another rate increase by the US Federal Reserve moving by 0.25% which is the 8<sup>th</sup> such move since the 2008 global financial crises. The Federal Reserve has a significant impact on US markets, but many investors fail to realize it is equally important impact on foreign markets. Emerging markets are particularly vulnerable to these changes in interest rates and the dollar's valuation relative to local currencies. This is not fully incorporated in monetary policy decisions – but that doesn't mean it won't have an impact. Many emerging market companies have benefited from low U.S. interest rates by borrowing in dollars and repaying debt with stronger local currencies. Higher U.S. interest rates could make these debts more difficult to service. These increased costs could lead to corporate defaults that could hurt the emerging market corporate bond market.

Secondly, many emerging markets have seen significant foreign direct investment since the 2008 global financial crisis. With U.S. and European bond yields at record lows, investors flocked into higher yielding emerging market stocks and bonds to bolster their portfolios yields. These emerging market economies became reliant on this steady increase in foreign investment to drive economic growth and witnessed significant expansion over the past several years. Higher interest rates could draw more investors back to the U.S. and spark an outflow of capital from emerging markets. This lower foreign investment could put the brakes on economic growth in many economies that rely on such investments.

Many emerging markets have experienced a significant appreciation in their currencies. These countries were able to leverage this increase in its currency valuation to borrow more U.S. dollars to finance various growth initiatives and increase government spending. The bad news is that these emerging market currencies have already started to fall amid expectations that the Federal Reserve will increase interest rates. These dynamics could make it more difficult for them to repay their dollar-denominated debts, the same issue faced by many private companies. The only solution may be to let its currency fall in value, which could help exports but hurt investment.

Our strategy is that to continue focusing on portfolio diversification. By reducing your exposure to any one asset you will control the impact that asset can have on your overall portfolio. Seeking exposure on the short end of the yield curve and building out laddered portfolio is the prescribed strategy for fixed income securities as we expect sustained levels of volatility throughout the Emerging Markets.

Outside of purchasing the assets outright, investors are also able to gain exposure to a diversified global bond through a professionally managed fund. The JMMB Fund Managers (JMMBFM) USD Income Fund is one such option that gives investors access to diversified portfolios that are expertly managed with the intention of returning great value.

As always, decisions surrounding the creation and management of your portfolio should be within the context of what is appropriate given your client's risk and return objectives.

Bond	Coupon Rate	Indicative Price	Indicative yield	Recommendation
Govt. of Trinidad 2024	4.375%	\$102.004	3.94%	BUY
Grupo Unicomer 2024	7.875%	\$108.77	5.66%	BUY/OVERWEIGHT
Govt. of Dominican Republic 2024	5.875%	\$105.70	4.47%	BUY
Nat Road Operating & Constructing Co. (NROCC) 2024	9.375%	\$124.50	4.72%	BUY
Govt. of Jamaica 2025	7.625%	\$116.75	4.71%	BUY
Air Jamaica 2027	8.125%	\$106.00	8.53%	BUY
Govt. of Jamaica 2028	6.625%	\$110.65	5.32%	BUY
Govt. of Bahamas 2028	6.000%	\$104.85	5.32%	BUY

**Prices and yields are extremely indicative and are subject to change without notice**

We recommend that clients take the portfolio approach to investing. This is where they seek to build a portfolio that takes the appropriate exposure to the different asset classes in a way that is consistent with their risk profile, time horizon and objectives. Currently, our recommendation for client portfolios is that cumulative exposure to global bonds issued outside of GOJ and the region should be no more than 10% of one's overall portfolio with an additional limit of 5% to a specific country. We continue to conduct reviews of our capital market expectations and Strategic Asset Allocation for clients' portfolios and will update such guidelines and recommendations where applicable.

Discretionary portfolio management is a form of investment management service in which buy and sell decisions are made by a portfolio manager on behalf of client. This service is beneficial to clients because it frees them from the burden of making day-to-day investment decision which can be better made by a qualified portfolio manager who is attuned to the idiosyncrasies of the market. Delegating the investing process to a competent portfolio manager leaves the client free to focus on other things that matter to him or her. Discretionary investment management may also ensure that the client has access to better investment opportunities through the portfolio manager as it aligns the investment manager's interest with that of the client. The client may also receive better prices for executed trades, as the portfolio manager can put through a single buy or sell order for multiple clients.

At JMMB we offer two (2) categories of discretionary portfolio management, Plan 1 and Plan 2:

### **Plan 1**

Designed primarily for clients who want JMMB to manage their goal achievement to a targeted return, in keeping with goal objectives. This management is executed by JMMB after initial IPS is agreed, so there is no consultation on transaction execution. These individuals tend to have investment objectives along the lines of wealth maximization, retirement, wealth protection, income generation among others and the investment approach will include the outright purchase of bonds and stock (regional and international) with portfolio allocations specific to their risk tolerance and return requirement.

### **Plan 2**

Designed for all JMMB clients (could include HNW) who choose to buy packaged portfolio solutions that will be managed by JMMB. Customized solutions (which include individual products) cannot be selected under this option. After consultation the client has chosen to allow JMMB to manage goal achievement to a targeted return in keeping with investment objectives. Client receives a simple goal plan and makes a commitment to set savings amounts and frequency. Education, house purchase, short term goals, retirement among others are the primary goals for these clients. The investment approach consists of the purchase of a portfolio of CIS and Money market accounts managed by JMMB with allocation in the various accounts determined by the risk and returns objectives associated with the clients.

# JMMB RATING SYSTEM GUIDE

## Buy Recommendation

The security is attractively priced relative to the broader market, and based on fundamental assessment; we believe the risks related to that security not achieving projected price targets and are minimal.

## Buy for Income Only

Based on fundamental assessments, we believe the security may be fairly valued at current prices, and as such additional capital appreciation may not be likely at least in the short to medium term. However, we believe investors could benefit from consistent dividend payments moving forward.

## Hold

We believe the security is fairly valued at current prices and no significant deviation in price is anticipated except where there is the release or discovery of new and material information. Investor action could include taking gains and realigning portfolio to other securities.

## Speculative Buy

The security is attractively priced relative to its fundamental and intrinsic value. However, overarching risk factors could cause significant volatility in the price of the asset in the short to medium term and further result in the security not achieving its projected price targets. This asset is more suited to clients with a very high tolerance for risk.

## Underweight

We believe the security is fairly valued at current prices or its intrinsic value has been exceeded. There could also be risk factors on the horizon that could result in significant price movement to the downside. As a consequence, the recommended course of action is to reduce current portfolio allocation below the Strategic Asset Allocation guidelines by selling down the asset and realigning the portfolio to other securities. For investors who do not currently own the asset, it may be a risky proposition to take exposure at the current price levels as better entry points may be possible in the short to medium term.

## Overweight

The security is attractively priced relative to its intrinsic value and the probability of above average growth in the short to medium is extremely strong. As such, investors' interest could be best served by taking a larger than initially projected exposure relative to the portfolio's Strategic Asset Allocation guidelines to take advantage of this highly probable price movement to the upside.

## Neutral

We neither have a bullish nor bearish opinion on the asset at this time. However, the discovery of material information or new developments could result in a change in our recommendation on the security.

## Sell Recommendation

The security's intrinsic or fundamental value has been exceeded and as such, investors' interests may be best served exiting that particular investment and realigning their portfolios to other securities recommended as buys.

## PORTFOLIO MANAGEMENT BASICS

### Investment Policy Statement (IPS)

A document that captures information about a respective portfolio's strategic asset allocation, objectives, risk tolerance, time horizon, and details including frequency of portfolio reviews.

### Strategic Asset Allocation

A "base policy mix" that is established based on expected returns, client's objectives, risk tolerance, and time horizon. Because the value of assets can change given market conditions, the portfolio constantly needs to be re-adjusted to meet the policy.

### Tactical Asset Allocation

A variation from a portfolio's strategic asset allocation weights in order to take advantage of short term market opportunities.

### Portfolio Rebalancing

The process that involves constantly adjusting the portfolio to meet its strategic asset allocation.

### Conservative Portfolio

Portfolios that either have short investment time horizons or have principal perseverance and income generation as the major objectives. These portfolios generally cannot tolerate swings in their value greater than 10%.

### Moderate Portfolio

Portfolios that have medium to long term investment time horizons and typically have income and growth, or long term capital growth as the major objectives.

### Aggressive Portfolio

Portfolios that have long term time horizons and have the ability and willingness to take on additional risk in order to make above average returns. These portfolios may utilize margin/leverage from time in an effort to increase returns.

### Yield Pick Up

This is the additional interest rate an investor receives when selling a lower-yielding bond in exchange for a higher-yielding bond.

### Amortizing Bond

A bond that makes payments of both interest and principal at specific intervals until final maturity.

### Bullet Payment or Plain Vanilla Bond

A bond that pays interest at periodic intervals and repays principal in a single payment at maturity.

### Exchange Traded Funds (ETFs)

A special type of fund that allows efficient diversification by investing in a portfolio of stocks or bonds and which is designed to mimic the performance of a specific index.

### Margin

The use of leverage or borrowed funds utilizing securities held in a portfolio as collateral. The intent is to increase the overall returns of the portfolio. However, this can be a very risky undertaking especially in times of extreme volatility.

## INVESTMENT STRATEGIES

### Capital Preservation

A conservative investment strategy where the main objective is to protect the real value of a portfolio's principal.

### Current Income

A conservative investment strategy where a portfolio's main objective is providing current and consistent income generation.

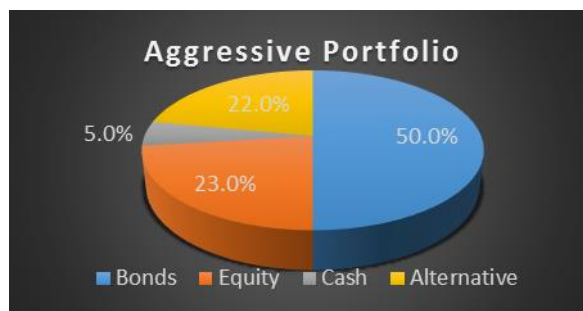
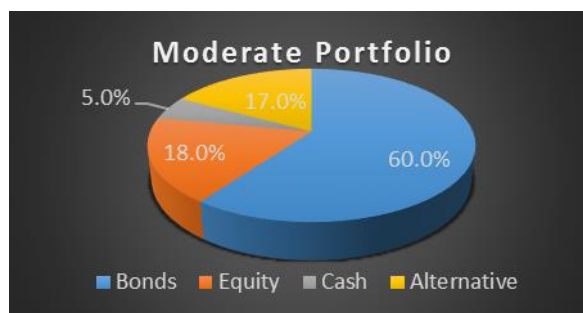
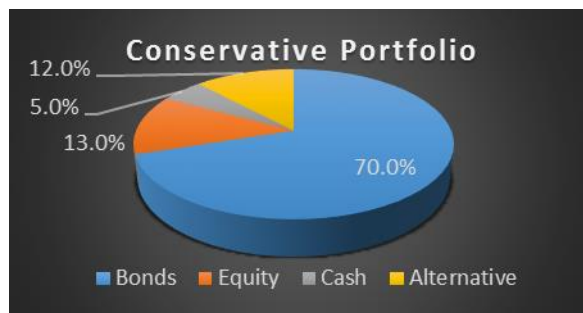
### Income and Growth

A moderate investment strategy where the portfolio manager seeks to balance the generation of income for the portfolio with long term capital appreciation.

### Long Term Capital Growth

An aggressive investment strategy that is geared towards maximizing the value of a portfolio over the long term.

## ACTUAL MODEL PORTFOLIOS



### Underweighting an Asset Class

Where a portfolio does not hold a sufficient amount of a particular security when compared to the security's weight in the strategic asset allocation. Underweighting a security may allow the portfolio manager to achieve returns greater than that of the benchmark or model portfolio.

### Overweighting an Asset Class

Where a portfolio holds an excess amount of a particular security when compared to the security's weight in the underlying benchmark portfolio. Actively managed portfolios will make a security overweight when doing so will allow the portfolio to achieve excess returns

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